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February 1990 Monthly Survey

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# Surveys of Consumers

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## Consumer Sentiment Weakens
## December Freeze Strains Personal Finances

### Index Declines

The Index of Consumer Sentiment was 89.5 in the February 1990 survey, down from 93.0 one month earlier and 94.3 one year earlier. Although the February 1990 reading was the lowest since late 1987, it was only marginally below the 90.5 recorded in December 1989 and nearly equal to the 89.6 recorded in August 1989. Overall, while the recent trends do indicate a softening in consumer sentiment, thus far the decline has been minor and does not yet signal the type of downward momentum that would culminate in a recession. To be sure, however, the data do indicate that consumer spending will continue to be sluggish.

The February decline was concentrated in less favorable evaluations of consumers current financial situation, reflecting the weather induced price increases at the turn of the year. In addition, consumers viewed prospects for the general economy less favorably, stemming from increased concerns with rising unemployment due to announced "plant" closings--the closing of Drexel was more likely to be viewed in terms of its employment impact than a indication of spreading problems for financial institutions.

Among families with incomes of $30,000 or more, the Index of Consumer Sentiment fell to 93.9 in February 1990 from 99.9 one month earlier and 104.6 one year earlier.

### Leading Indicator Dips

The Index of Consumer Expectations, the component of the Leading Indicators Index, declined to 81.3 in the February 1990 survey from 83.4 one month earlier and 88.8 one year earlier. Despite the February decline, the Expectations Index was marginally above the 1989 low reading of 80.1, and well above the 1987 low of 72.7 The decline over the past year was largely due to less favorable expectations for the national economy.

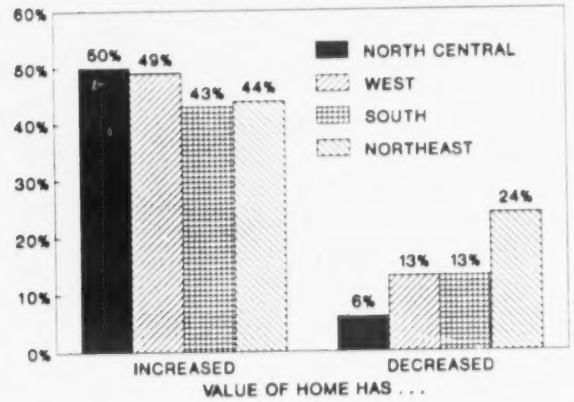
### Northeast Slump

The largest loss was recorded among residents of the Northeast, with the Index falling to 82.0 in February from 91.0 in January. Indeed, the level of consumer confidence among residents of the Northeast was lower in the February 1990 survey than any other time since the start of the current expansion--even slightly lower than following the 1987 stock market crash.

The problems in the Northeast can be traced in part to a weakened housing market. In the January and February 1990 surveys, homeowners were asked whether they though the market value of their homes had increase, decreased, or stayed the same during the prior year. Across all regions, 46 percent of all home owners thought that the market value of their homes had increased, 41 percent thought that the value had remained

unchanged, and just 13 percent thought the market value had actually declined.

CHANGE IN HOME VALUE BY REGION




Of the four major Census regions, the residents of the Northeast were the most likely to report declining home values--reported by 24 percent, more than twice the average of the three other regions. In contrast, the North Central region had a higher proportion that reported gains in market value and a much lower proportion that reported losses in value (just 6 percent).

Recent changes in home values did have an impact on consumer attitudes. Among families that reported increased home values, the Index of Consumer Sentiment was 95.9 compared to 83.7 among those that reported declines in home values.

**Personal Finances Burdened By Weather Induced Price Increases**

American families viewed their current financial situation less favorably in the February 1990 survey, but they remained upbeat about future prospects. In large part, families viewed the adverse changes in their current situation as temporary, due to the unusually cold weather in December that prompted rising energy and food prices.

Among all families in the February 1990 survey, 38 percent reported that their current financial situation had improved during the past year, down from 43 percent one month earlier and 44 percent one year earlier. The proportion of families that reported worsening finances rose to 30 percent in February 1990, up from 24 percent one year earlier.

When asked to explain how their financial situation had changed, 17 percent of all families mentioned that rising prices had diminished the purchasing power of their incomes in the February 1990 survey (up from 12 percent one year earlier). This was the highest proportion to complain about the impact of rising prices on their family budgets since 1983. In addition, fewer families reported income increases in February 1990 than one year earlier (30, down from 36 percent).

Families continued to view their financial prospects for the year ahead in favorable terms, although not as robust as a year earlier. Among all families in the February 1990 survey, 35 percent expected an improved financial situation during the year ahead, unchanged from the month earlier, but below the year earlier reading of 40 percent. Importantly, just 9 percent of all families expected their financial situation to worsen during the year ahead, just below the 11 percent recorded one month earlier and 10 percent recorded one year earlier. The majority of families in the February 1990 survey (53 percent) expected their financial situation to on balance remain unchanged, considering both changes in incomes and prices.

**Inflation Expectations Post Small Improvement**

The increase in the expected annual inflation rate that was recorded in January was partially reversed in the February survey. Consumers expected the annual rate of inflation to average 5.1% during the year ahead in the February 1990 survey, down from 5.4% in January but still above the 4.7% recorded in December 1989.

## Slow Growth Economy Reflected in Assessments

Consumers' evaluations of the current state of the national economy were less favorable in the February 1990 survey than any other time during the current expansion--except for the month immediately following the 1987 stock market crash. Indeed, more families reported that economic conditions had worsened than thought they had improved during the past year (44 versus 36 percent). This is in sharp contrast to views of the economy a year ago, when favorable assessments outnumbered unfavorable assessments by nearly a two-to-one margin (48 versus 26 percent).

Prospects for the national economy for the year ahead have also dimmed, but the shift in opinion has not been large. Among all families, 23 percent expected the national economy to worsen during the year ahead, compared with 19 percent that expected improvement. This is the least favorable balance of opinion recorded during the current expansion. Nonetheless, it must be noted that the majority of consumers (56 percent) expected the performance of the economy to remain unchanged during the year ahead--that is, to continue on the same, slow path of growth.

Although the slow-down in economic growth was expected to continue, overall conditions in the national economy was still expected to remain favorable. Good times financially in the economy as a whole were expected by 46 percent of all families in the February 1990 survey, down from 52 percent in January and 56 percent in February 1989. Unlike the responses to the question on the expected direction of change, more families still expected that during the year ahead the national economy would be characterized by good times rather than bad times financially (46 versus 35 percent). Even this favorable outlook has narrowed, however, as the margin of opinion was two-to-one in the February 1989 survey (56 versus 28 percent).

## Unemployment: The Dominant Concern

The proportion of families that expected the national unemployment rate to increase during the year ahead rose to 44 percent in the February 1990 survey, up from 36 percent one month earlier and 30 percent one year earlier. This is the highest proportion expecting an increase in the national unemployment rate that has been recorded during the current expansion. Just 7 percent of all families expected declines in the unemployment rate, down from 13 percent one year earlier. Importantly, nearly half of all respondents (48 percent) expected the national unemployment rate to remain largely unchanged at its current level.

The required advance announcements of plant closings may well be affecting these expectations over and above the actual plant closings. In effect, both the advanced announcement and the news of the actual plant closing may have independent and cumulative impacts on unemployment expectations.

## Interest Rates

Increases in interest rates were expected by 48 percent of all families in the February 1990 survey. This reading was only marginally above the January 1990 reading of 45 percent, but well below the all-time peak reading of 75 percent recorded a year earlier. After posting sharp improvements by mid 1989, interest rate expectations have remained largely unchanged.

## Household Durables

Favorable attitudes toward buying conditions for appliances, furniture, and home electronics were held by 74 percent of all families in the February 1990 survey, between the 77 percent recorded one month earlier and the 71 percent recorded one year earlier. Overall, buying attitudes toward household durables have remained at favorable

levels due to continued widespread reports of the availability of price discounts. Although the proportion of consumers that mentioned discounted prices fell to 35 percent in the February 1990 survey from the all-time peak of 45 percent in January, it remained higher than a year earlier (33 percent).

**Homes**

Favorable home buying attitudes were held by 62 percent of all families in the February 1990 survey, down slightly from the 64 percent recorded in both the month and year earlier surveys. Less favorable perceptions of mortgage interest rates were the primary cause for the small decline. The proportion of families that mentioned the availability of lower interest rates fell to 25 percent in February from 31 percent in January, while complaints about high mortgage interest rates rose to 18 from 13 percent.

During the past year, there was an increase in favorable as well as unfavorable perceptions of current market prices. In the February 1990 survey, 25 percent favorably mentioned current home prices, up from 20 percent a year earlier. This improvement, however, was offset by an increase in unfavorable price references, which rose to 18 percent in February 1990 from 13 percent one year earlier.

**Vehicles**

Favorable car buying attitudes were held by 63 percent of all families in the February 1990 survey, unchanged from the January reading and just above the year earlier figure of 61 percent. Overall, there has been very little change in car buying attitudes during the past year.

The availability of price discounts was mentioned by 48 percent of all families in the February 1990 survey, replicating the all-time record set one month earlier. Unfavorable price references, however, inched upward in February, to 22 percent from 17 percent one month and one year earlier.

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The February 1990 survey included 511 completed interviews conducted between January 31 and February 26, 1990.